

Kinds or Types or Forms of Money

There are many forms of money. Following are the main forms of money.

1. Metallic Money, 2. Paper Money, 3. Bank Money, 4. Legal Money, 5. Illegal Tender Money 6. Plastic Money 7. Near Money

1. Metallic Money

The money made of any metal such as gold, silver etc is called metallic money. In our country the coins of Rs. 1, 2 and 5 are the current examples of metallic money. Due to its weight, it is difficult to use this money in large quantity. Therefore coins are used in small amounts only.

The metallic money has the following two types:

A) Full Bodied Coins and **B) Token Money**

A) Full Bodied Coins

When the face value of the coin is equal to the value of metal contained in the coin, the coin is called a full bodied coin. The gold and silver coins of old times are examples of full bodied coins.

B)Token Money

When the face value of a coin is greater than the value of the metal it contains, it is called token money. In our country, all the coins are token money.

2. Paper Money

This refers to currency notes issued by the Central Bank of a country. Though they are made up of paper, they circulate as money with proper backing of the law . Since the Government manages the paper as money by law , it is called managed money.

The paper money can be classified into following types:

A) Representative Money B) Convertible Money C) Inconvertible Money/fiat Money.

A) Representative Money

Representative money is that money which is fully backed by equal metallic reserve. The holder of a bank note can easily get it converted into metallic (gold & silver) form on demand.

B) Convertible Money

It is the form of money which can be converted into gold, silver i.e. metallic reserves. But all the notes issued by the government are not fully backed by gold. The amount of gold kept by the government is a particular proportion of the notes issued.

C) Inconvertible/Fiat Money

Inconvertible or fiat money is issued without any metallic reserve. The face value of such money is more than the value of the paper. e.g. the value of the paper of 100 rupee note is almost nil but its purchasing power is equal to Rs.100.

3. Bank Money

This is the most modern form of money. This money is also called credit money. Bank money consists of cheques, bill of exchange and drafts. They also serving the purpose of money.

A) Cheques

A cheque is an unconditional order by the client on his bank to pay a certain sum of money to him or to any other party.

B) Bills of Exchange

A bill of exchange is an order by one party to another to pay a certain sum, either immediately or on a fixed date for payment of goods and services received.

C) Draft:

Draft is a cheque drawn by a bank on its own branch or the branches of another bank requesting it to pay on demand a specific amount to a person named on it.

4. Legal Tender Money

The money that a person accepts as a means of payment and in discharge of debt is called legal tender notice. All the notes and coins issued by the govt. and the central bank are legal tender money. Legal tender money is of two types:

A) Limited Legal Tender Money

The money which can be used a means of payment up to a certain limit is called limited tender money e.g. coins.

B) Un-limited Legal Tender Money

The money that can be used a mean of payment up to any limit or amount for example all the notes issued by RBI.

5. Illegal tender money

When the coins are worn out and lose their standard weight and when the currency notes get damaged and when the Government declared certain forms of money as no legal tender money. They all become illegal tender money. For example 1000 Rupees currency notes were declared as illegal tender money by the government of India.

6. Plastic Money

Plastic money means the credit cards, smart cards. Plastic cards which have specially printed set of characters. Recently the use of this money has increase.

7. Near Money

Near money is a term for highly-liquid assets that are quickly and easily converted into cash. They may also be referred to as cash equivalents. Drafts, Bills of Exchange, Treasury Bills, Bonds, Equity Shares, Fixed and Saving Deposits, Saving Certificates are the major types of Near money.